Supreme Court, U.S.
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No. 02-689

IN THE

Supreme Court of the United States

PETER SCHEIBER,
Petitioner,

v.

DOLBY LABORATORIES, INCORPORATED and
DOLBY LABORATORIES LICENSING CORPORATION,
Respondents.

On Petition for a Writ of Certiorari to the United States Court Of Appeals for the Seventh Circuit

BRIEF FOR RESPONDENTS IN OPPOSITION

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QUESTION PRESENTED

The Court's *Brulotte* rule, which prohibits patent holders from charging royalties based on post-expiration use of their patents, merely enforces constitutional and statutory prohibitions against extending a patent beyond its legal term.

Should the Court use this case to reconsider *Brulotte*, given that neither Congress' treatment of *Brulotte* nor the record below warrants departing from the Court's longstanding precedent?

RULE 29.6 STATEMENT

Dolby Laboratories, Incorporated, a California corporation with its principal place of business in San Francisco, California, has no parent companies. No publicly held company owns 10% or more of its shares.

Dolby Laboratories Licensing Corporation, a New York corporation with its principal place of business in San Francisco, California, has no parent companies. No publicly held company owns 10% or more of its shares.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. at 1a-16a) is reported at 293 F.3d 1014. The district court's order on cross-motions for summary judgment (Pet. App. at 19a-42a) is unreported.

JURISDICTION

The judgment of the court of appeals (Pet. App. at 17a-18a) was entered on June 17, 2002. The petition for rehearing, with suggestion for rehearing *en banc*, was denied on August 1, 2002. (Pet. App. at 46a-47a.) The petition for a writ of certiorari ("Petition") was filed on October 29, 2002. The Petition invokes this Court's jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS

The Constitution authorizes Congress:

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

U.S. CONST. art. I, § 8, cl. 8.

The patent laws provided:

> Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States . . . .

35 U.S.C. § 154 (1988).

The Patent Misuse Reform Act provides:

> No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . .
>
> (4) refused to license or use any rights to the patent; or
>
> (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

35 U.S.C. § 271(d)(4), (5).

STATEMENT CONCERNING THE FACTS AND PROCEEDINGS BELOW

Dolby adopts the statements of factual and procedural background (Section I) of the district court's June 1, 1999 summary judgment order (the "Summary Judgment Order"). (Pet. App. at 20a-23a.)

As discussed below, Dolby believes that both the Petition and the Seventh Circuit's June 17, 2002 opinion (the "Seventh Circuit Opinion") affirming the Summary Judgment Order include certain factual misstatements, mischaracterizations and omissions, and rely on evidence and arguments not presented to the district court.

1. Origin of the License Agreement.

The Petition and the Seventh Circuit Opinion state erroneously that the March 1984 License Agreement which, as amended, underlies this dispute (the "License Agreement") was executed in settlement of Scheiber's August 1983 lawsuit. That suit alleged that Dolby was infringing two of Scheiber's United States surround sound patents. (Pet. at 2-3; Pet. App. at 2a.) As noted by the district court, the license agreement that effectuated settlement of the infringement case was the "Professional Products" agreement executed in November 1983. That agreement—which generally covered Dolby's use of Scheiber's three United States patents and two Canadian patents in connection with motion pictures—is not at issue here. (*See* Pet. App. at 20a; District Court Docket ("Dkt.") 48, Ex. D, §1 (November 21, 1983 settlement agreement); Ex. E (November 1983 Professional Products license agreement) at 2 (last "whereas" clause).)

The License Agreement that Scheiber sues on in this litigation applied to consumer products, was executed in November 1984, and was retroactively effective as of March 1, 1984. (Dkt. 48, Ex. A.) This "independent

agreement" did not settle the infringement case and did not "amend, modify or otherwise alter any prior agreement, license and/or settlement." (*Id.* § 6.3.)

2. Use of New Evidence on Appeal; Interpretation of the License Agreement.

The Petition and the Seventh Circuit Opinion also state erroneously, and contrary to the record, that Scheiber accepted Dolby's proposal of a lower royalty rate in exchange for payment of royalties on United States sales after the expiration of the last of his United States patents. (*See* Pet. at 3; Pet. App. at 2a, 11a-12a.) First, Scheiber never made this assertion in his district court summary judgment filings. Second, the record citations in footnote 1 of the Petition do not establish the existence of such a trade-off. The evidence cited there establishes only the undisputed fact that, as stated in Section 3.1 of the License Agreement, Dolby did not intend to increase what it charged its own licensees when it added Scheiber's patent rights to those it already offered to those licensees.[1] Third, the only possible basis for this purported *quid pro quo* is the deposition of Scheiber's attorney, Ben Dutton, who negotiated the License Agreement with Dolby. Although Scheiber cited certain testimony and exhibits from Dutton's deposition in the district court, he neither cited any evidence for the "trade-off" proposition nor even asserted this proposition. (*See* Dkt. 48 at 2-3, 7-8 n.2; Dkt. 82 at 10 n.6.)

On appeal, Scheiber cited *entirely new*, non-record Dutton testimony and exhibits for, among others, the proposition that

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[1] Section 3.1 of the License Agreement also provides (in its last sentence) that if Dolby were able to increase its royalty rates to licensees "because of the addition to its licenses of the Patent Rights," it would pay Scheiber 35% of any such increase. However, such a rate increase did not trigger any reduction of the period over which royalties were to be paid to Scheiber.

Dolby's alleged proposal to extend payment of royalties on all sales to the expiration of the Canadian patents was a bargained-for exchange. (*See, e.g.*, Appellant Br. at 7-8, 16 n.6, 37.) On July 30, 2001, Dolby moved to strike the new Dutton testimony and exhibit references from Scheiber's appellate brief on the ground that they were not part of the district court summary judgment record and thus could not be considered on appeal. In an August 27, 2001 order, the court of appeals' motions judge ruled that the motion to strike "shall be taken with the case for disposition along with the merits of the appeal by the assigned merits panel."[2] Notwithstanding that order, the merits panel did not make any ruling on Dolby's motion to strike. To the contrary, Judge Posner's description of the supposed lower rate/longer term trade-off apparently was based upon the Dutton materials proffered by Scheiber for the first time on appeal, in disregard of the Seventh Circuit's own rule that depositions merely filed with the district court are not part of the summary judgment appellate record if relevant portions were not also cited in the district court. *See Uhl v. Zalk Josephs Fabricators, Inc.*, 121 F.3d 1133, 1135 (7th Cir. 1997).[3]

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[2] This order is summarized as an "8/24/01" entry in the Seventh Circuit's docket. An amending entry dated September 13, 2001 reflects that the order actually was "issued on 8/27/01 not 8/24/01."

[3] If, as suggested by Scheiber's appellate briefing and the Seventh Circuit Opinion, the district court record is to be ignored and the entire Dutton deposition is fair game (a proposition with which Dolby disagrees vehemently), then Dolby notes Dutton also testified that Dolby and Scheiber "didn't have any detailed discussions about patent licenses and expiration"; that they "never talked about extending paying royalties beyond the expiration of the term of the last to expire of the patents in the bundle, which would be a Canadian patent"; that he had no idea why Dolby had included language in a draft of the License Agreement that separated out the expiration dates of the two sets of patents; and that "there was certainly no discussion" regarding the time period and geographic scope of the patent. (Dkt. 29 (Dutton Dep.) at 71, 72, 76-79, 83.) Dutton did testify that Scheiber objected to the expiration-specific

The Seventh Circuit's improper use of the non-record Dutton evidence (which Dolby never had the opportunity to counter in the district court because it was never presented there) is critical to its characterization of Scheiber as the unwitting (albeit represented by counsel) victim of a deceitful licensee that "is flouting" a supposedly clear contractual duty to pay post-expiration royalties by hiding behind *Brulotte*. (Pet. App. at 12a-13a.) It also ignores Dolby's position in the district court and on appeal that the License Agreement did not require post-expiration royalties, a position with which the district court was "inclined to agree" although it did not decide the issue. (Pet. App. at 26a.)

Dolby also disputes the court of appeals' statement that the supposed trade-off arrangement would enable Dolby to "pass on the entire royalty expense to its sublicensees without their balking at the rate." (Pet. App. at 2a.) In fact, Section 3.1 of the License Agreement generally required that Dolby pay to Scheiber an amount equal to a percentage of the royalties Dolby received from its licensees. This provision did not "pass on" any "expense" to those licensees; it reduced Dolby's profits by the amount it was required to pay Scheiber.

3. Market Power.

Relying on Dolby's response to one of his interrogatories, Scheiber incorrectly claims that "Dolby admitted that Scheiber does not have relevant market power." (Pet. at 16 n.10; 19 n.11.) In fact, Dolby's actual response was: "Dolby is unaware of any form of 'market power,' possessed by Scheiber or otherwise, which is relevant to this lawsuit other

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language, but said that the objection was based on the fact that Dolby wanted worldwide licensing rights to the patented technology but only included payment of royalties on United States and Canadian sales. (*Id.* at 29-30, 67, 76-77.) Moreover, Dutton agreed that the scope of a claim of a patent expires when the patent expires. (*Id.* at 64-65.)

than whatever 'market power' was conferred by the patent monopoly granted to Audiodata and/or Scheiber under the United States and Canadian patents covered by the 1984 License Agreement between Dolby and Audiodata/Scheiber." (Dkt. 82, Ex. N.)

Under *Brulotte*, no "market power" of Scheiber's was "relevant" to the claims he asserted in this case. Dolby's response did not concede that Scheiber lacked market power—only that he lacked market power that was relevant under applicable law—and expressly stated that Scheiber had whatever market power derived from his patent monopoly. As a matter of law, Dolby had no reason to investigate the issue for purposes of this litigation.

4. Disposition of Scheiber's Non-Contract Claims.

Finally, the Petition incorrectly asserts that the court of appeals held that Scheiber "had waived his state-law and equitable claims." (Pet. at 4.) Scheiber sought summary judgment only with respect to his contract claims. (Dkt. 47, 48.) Dolby's cross-motion was directed to all of Scheiber's claims, and specifically attacked Scheiber's conversion, unjust enrichment and punitive damages claims as deficient under state law. (*See* Dkt. 61, 62 at 13-16; 89 at 19-24.) The district court ruled that its disposition of Scheiber's contract claims under *Brulotte* necessarily disposed of the non-contractual claims as well.[4] (Pet. App. at 39a-40a.) Scheiber's appellate brief made no specific substantive

[4] The Petition incorrectly states that the district court granted Dolby's "motion to deny" Scheiber's motion for partial summary judgment as to his contract claims, and denied Dolby's "motion for restitution" of royalty overpayments. (Pet. at 1.) In fact, the district court denied Scheiber's motion, granted Dolby's motion for summary judgment as to all of Scheiber's claims, and denied Dolby's motion for summary judgment on its counterclaim for overpayments (which later was settled). (*See* Pet. App. at 42a.)

argument with respect to his non-contract claims. In its Brief of Appellee, Dolby argued that (1) Scheiber had waived any argument that the district court had erred in the disposition of his non-contract claims; and (2) waiver and *Brulotte* aside, Dolby was entitled to summary judgment on those claims. (Appellees' Br. at 40-42.) Scheiber's appellate reply brief opposed Dolby's waiver argument and, for the first time on appeal, addressed the state-law merits of his non-contract claims. (Appellant's Reply Br. at 19-21.) In affirming the Summary Judgment Order, the court of appeals held that *Brulotte* barred Scheiber's contract claims and that he had not asserted a *quantum meruit* claim. (Pet. App. at 15a.) The court of appeals did not make any specific disposition with respect to the state-law merits of Scheiber's non-contract claims.

REASONS FOR DENYING THE PETITION

1. Introduction.

The Petition satisfies none of the traditional criteria for granting certiorari. The decision below neither conflicts with any decision of this Court or of another court of appeals, nor presents any other "compelling reasons" warranting the exercise of this Court's extraordinary certiorari jurisdiction. SUP. CT. R. 10. Moreover, the court of appeals correctly applied *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), a longstanding precedent of this Court that involved the straightforward application of the Patent Clause, U.S. CONST. art. I, § 8, cl. 8, and of legislation implementing the "limited Times" provision of that clause.

Any reconsideration of *Brulotte* should be left to Congress, given the Constitution's commitment of intellectual property laws and policy to the legislative branch. Congress has directly considered the *Brulotte* rule and elected not to change it. On the merits, overruling *Brulotte* would enable patent holders to circumvent the constitutional mandate that patents

have finite duration by leveraging their legally temporary rights into a potentially indefinite stream of future royalties based on post-expiration use.

2. The Court's Development of *Brulotte*.

The Seventh Circuit Opinion offers no compelling reason for revisiting this Court's settled precedent. Consistent with this precedent, *Brulotte* merely applies the Court's earlier determination that "*any* attempted reservation or continuation . . . of the patent monopoly,[5] after the patent expires, *whatever the legal device employed*, runs counter to the policy and purpose of the patent laws." *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945) (emphasis and footnote added).

Even Justice Harlan's lone dissent in *Brulotte*, which was based upon his conclusion that the challenged transaction should be viewed as a sale of a machine rather than a license of a patented idea, embraced the principle that post-patent royalties are absolutely prohibited:

> Conversely it should be equally clear that if Thys [the patent holder] licensed another manufacturer to produce hop-picking machines incorporating any of the Thys patents, *royalties could not be exacted beyond the patent term*. Such royalties would restrict the manufacturer's exploitation of the *idea* after it falls into the public domain, and no such restriction should be valid.

Brulotte, 379 U.S. at 35 (Harlan, J., dissenting) (first emphasis added; second emphasis in original).

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[5] The term "monopoly" refers to the exclusive right to exploit patented technology, not to the antitrust concept of market power. "The contracts are, therefore, on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired as they do for the monopoly period [before the contracts have expired]." *Brulotte*, 379 U.S. at 32.

Similarly, this Court's post-*Brulotte* decisions have neither criticized this long established doctrine nor cast any doubt on the decision's validity. To the contrary, this Court's most recent discussion of *Brulotte* was its reaffirmance in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979).

Ignoring this substantial precedent, the panel incorrectly states that *Brulotte* was not based upon an interpretation of the Patent Clause or the patent statutes. (Pet. App. at 5a.) Judge Posner allows, however, that his criticism of *Brulotte* "might be wide of the mark" if *Brulotte* were based on an interpretation of the patent laws. *Id.* In fact, *Brulotte* followed *Scott Paper*, in which this Court held that "[t]he nature and extent of the legal consequences of the expiration of a patent are Federal questions, the answers to which are to be derived *from the patent laws* and the policies which they adopt." *Scott Paper*, 326 U.S. at 255 (emphasis added). Thus, *Brulotte*'s holding is squarely based on the patent laws, and its doctrinal roots go back at least to 1945.

3. Congressional Treatment of *Brulotte*.

Any reconsideration of *Brulotte* should be left to Congress, which after recent review has pointedly refused to alter it. The Patent Clause empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. I, § 8 cl. 8. *Brulotte* is a straightforward application of Congress's statutory grant to patent holders of "the right to exclude others from making, using, or selling the invention throughout the United States" for a period of 17 (now 20) years. 35 U.S.C. § 154 (1988).

After *Brulotte* was decided, at least eight separate bills were introduced in Congress between 1983 and 1988 addressing patent misuse and/or unlawful patent extension.[6] At least one of these bills would have severely restricted application of *Brulotte*. *See* H.R. 4086, 100th Cong. (2nd Sess. 1988). *Brulotte* and its implications were thoroughly discussed. *See Patent Licensing Reform Act of 1988: Hearing Before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the Committee of the Judiciary, House of Representatives on H.R. 4086 and S. 1200 (Title II) Patent Misuse Legislation*, 100th Cong. (2nd Sess. 1988) ("Hearing").

The House Subcommittee received extensive commentary on current licensing practices, including testimony that *Brulotte* impeded patent licensing. *See* Hearing Transcript at 48. Conversely, others testified that patent licensing was not being restricted in any significant way, *id.* at 128, 135, and that it "is very well known" that "licensing activity is vigorous . . . [and] alive and well." *Id.* at 169 (Testimony of Robert P. Merges, Julius Silver Professor of Law, Columbia University School of Law). The Subcommittee also received extensive information about patent licensing practices in the European Community. *Id.* at 201-268.

Ultimately, Congress enacted the Patent Misuse Reform Act of 1988, Pub. L. No. 100-703, Title II, § 201, 102 Stat. 4676 (1988) (codified at 35 U.S.C. §§ 271(d)(4), (5)). Although the Reform Act addressed several forms of patent

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[6] H.R. 3878, title IV, 98th Cong. (1st Sess. 1983); S. 1841, title IV, 98th Cong. (2nd Sess. 1984); S. 2525, title V, 99th Cong. (2nd Sess. 1986); H.R. 4808, title VI, 99th Cong. (2nd Sess. 1986); S. 635, title I(A), 100th Cong. (1st Sess. 1987); S. 1200, title II, 100th Cong. (1st Sess. 1987); H.R. 4086, 100th Cong. (2nd Sess. 1988); H.R. 4972, title II, 100th Cong. (2nd Sess. 1988).

misuse, it did not alter the *Brulotte* rule.[7] From 1988 through today, Congress has on at least three occasions enacted legislation extending the term.[8] None of these statutes altered *Brulotte*. Under these circumstances, Congressional inaction "lends powerful support to" *Brulotte*'s "continued viability." *Square D. Co. v. Niagara Frontier Tariff Bureau, Inc.*, 476 U.S. 409, 419 (1986) (declining to overrule *Keogh v. Chicago and Northwestern R. Co.*, 260 U.S. 156 (1922)). "If there is to be an overruling of the *Keogh* rule, it must come from Congress, rather than from this Court." *Square D*, 476 U.S. at 424.

4. The Merits of *Brulotte*.

Overruling *Brulotte* would enable patent holders to circumvent the constitutional mandate that patents have finite duration. Absent *Brulotte*, patentees could leverage their legally temporary rights into a potentially indefinite stream of future royalties based on post-expiration use. The Petition

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[7] Petitioner argued below that the Reform Act had overruled *Brulotte*. Both the district court and the panel disagreed (Pet. App. 8a-9a, 34a-37a), and the Petition contains no such argument.

[8] Generic Animal Drug and Patent Term Restoration Act, Pub. L. No. 100-670, § 201 (1988) (extending term for animal drug patents to compensate for delays in obtaining FDA approval); Patent and Trademark Office Authorization Act of 1993, Pub. L. No. 103-179, § 5 (1993) (extending term for patents subject to FDA regulatory review). Uruguay Round Agreements Act, Pub. L. No. 103-465, § 532 (1994). On several occasions, Congress has enacted legislation specifically covering patent terms for drugs. *See* Federal Anti-Tampering Act, Pub. L. No. 98-127, § 4(a) (1983) (codified at 35 U.S.C. § 155A); Drug Price Competition and Patent Term Restoration Act, Pub. L. No. 98-417, Title II, § 201 (1984) (codified at 35 U.S.C. § 156). In addition, Congress has legislated outside the patent laws to stimulate innovation in the pharmaceutical industry. *See, e.g.*, The Orphan Drug Act, Pub. L. No. 97-414 (1983) (codified at 21 U.S.C. §§ 360aa-ee), discussed in *Baker Norton Pharmaceutical, Inc. v. United States Food and Drug Admin.*, 132 F. Supp. 2d 30, 31 (D.D.C. 2001).

suggests that the licensing of patent rights is desirable and that it would be helpful to both licensor and licensee to extend financing beyond the patent period. (Pet. at 20.) *Brulotte* does not restrict licensing or prohibit such financing arrangements, so long as post-expiration payments are not based on post-expiration use of the invention.

5. Other Remaining Issues.

Finally, revisiting *Brulotte* would not dispose of this case. *Brulotte* aside, the Seventh Circuit's belief that the parties' license agreement requires what *Brulotte* forbids—the payment of royalties based on post-expiration use—ignores the plain meaning of the license agreement, as suggested by the district court. (Pet. App. at 26a.) Resolution of that issue in Dolby's favor would moot any consideration of *Brulotte*. Moreover, as demonstrated *supra* at 4-6, Scheiber's proposed interpretation of the contract and the panel's characterization of Scheiber as Dolby's unwitting victim rely on evidence and arguments which were never presented to the district court, to which Dolby never had the opportunity to respond and which were the subject of a motion to strike that the court of appeals elected not to address. At most, Scheiber raises a triable issue of fact and, thus, no clearly presented issue of law.

Even were Scheiber to prevail on his argument for a "rule of reason" limitation on *Brulotte* and ultimately on his contract-construction argument, this case would not be decided. At a minimum, the factual question of market power would remain unresolved.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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